

# Investment Week

FEATURE - ALTERNATIVE INVESTMENTS

## A taste of the exotic

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A diverse range of unconventional assets is available to investors unimpressed by the returns available conventionally.

Recent volatility in the equity markets has left investors uninspired by conventional asset classes. The stage has been set for alternative investment options to become a popular way to diversify portfolios. But do investments in wine, stamps and art offer good long-term potential? Or are they volatile and high risk?

### Commercial litigation

An alternative investment truly uncorrelated to the equity markets is commercial disputes. In simple terms, investors provide financing to allow companies to pursue arbitration and litigation claims.

Burford Capital is one of the largest dispute financiers in the world. The company's strategy is to create and manage a portfolio of commercial dispute financing investments diversified by duration, claim type and geography.

"Constructing a diversified portfolio of litigation claims gives the potential for high returns for investors," says Selvyn Seidel, founder and investment adviser of Burford.

The company's dividend policy aims to build a minimum 5% return on invested capital and then distribute 50% of the net realised gains from investments.

Burford does not consider the size of a claim or its nature but the breadth of the investment opportunity and the scope to diversify risk and return by duration and type of case.

Although a new asset class, commercial dispute financing is expanding. There are more than one million lawyers in the US and annual litigation spending is large – both in terms of lawyer fees and amounts paid to resolve claims.

### Timber

Investing in timber has been popular with US investors since the mid-1980s. The asset class has good fundamentals such as growing demand and declining supply. It is a liquid product and a socially responsible investment – timberlands consume CO<sub>2</sub> and produce oxygen and wood-based products are understood to consume less energy and create less pollution than most substitutes.

Timber is also an excellent capital preservation tool. It does not matter what the stock market is doing, trees will continue to grow. Demand among European investors is increasing.

Liane Luke, head of the Timber Group at FourWinds Capital Management, says timber is an excellent long-term investment prospect. "Returns are generated by tree growth, which is capital appreciation, or by harvesting, which generates cash," she says. "Then we replant and go through the cycle again, or sell the plantation to another investor."

Timber is not correlated to traditional equity and bond investments and can offer a hedge to inflation. "It is a very durable market with many products so you are not just dependent on one market such as construction. You can sell into biofuels, pulp etc," Luke says.

Luke is portfolio manager of the Phaunos Timber fund, which has \$560m under management and invests in 10 different countries. It is a fully diversified, actively managed global timberland portfolio with a target total average annual return of 8%-12% net of taxes and fees.

Investing in timberland does however come with its risks. As well as economic risk such as price variations, there are physical risks threatening your investment – fire, wind, pests and disease. Luke says these risks can be mitigated by active management. "Physical risks are actively managed

and typically cost less than half of 1% annually. Geographic diversification helps protect against loss," she says. "Forestry is an old science. We know where fires or droughts are likely to occur, and site the plantation elsewhere. Foresters manage the woods to minimize problems."

## Stamps

Stamp collection may be considered a child's hobby in many Western countries, but astute investors have turned this ancient pastime into a money-making activity. In the East, where stamp collecting is seen as a way of preserving culture and history, demand is booming. Three quarters of a million people in 10 days turned up to a stamp show in China recently.

Geoff Anandappa is an investment adviser at Stanley Gibbons, a company specialising in unique investment ideas. A long-time stamp and postcard collector, he thinks demand will continue to increase, in turn making this alternative asset an attractive long-term investment.

"Historically, stamps have always been a good investment," he says. "The Queen is a good example. The royal collection is worth several hundred million pounds."

At a time when stock market fluctuations are rife, stamps could prove to be a risk-free choice. "They are a stable, long-term investment," Anandappa says. "Rare stamps are owned by collectors, not investors. With other alternative investments like wine or art, prices may fluctuate and investors panic when markets fall.

"With stamps, collectors do not sell unless they really have to. So it is a stable asset class. When the stock market fell in 2008, the rare stamps index was up. IFAs found other products fell in value but not stamps."

Anandappa, who advises investors all over the world, says on average an investor invests in £35,000 worth of stamps. He would not recommend investing less than £10,000. "You have to go for the finest stamps you can afford to get diversification within your stamp portfolio," he says.

A popular choice is Stanley Gibbons' guaranteed capital product. Investors buy their stamps at a discount and at the end of five years they can sell to either collectors or back to the company. Stanley Gibbons guarantees it will buy back the stamps after five years with 70% going to the investor and 30% to SG. The minimum SG guarantees is a 3% pa over the five years.

One potential risk with stamp investing is buying from an unreliable dealer without a guarantee. "If

you buy from eBay you do not know what you are getting. SG has 2-3 million stamps available but only 100-150 are investment grade stamps," Anandappa says.

## Wine

Vintners may have been making wine for thousands of years but in investment terms it is a relatively new asset class. Wine's immaturity may deter some investors but advantages such as low volatility, low risk and weak correlation to equities and bonds have made it a popular investment choice.

Traditionally, wine investors would buy cases of wine and store them in a cellar at home. Now wine investment companies have made investing in wine easy and accessible.

The Wine Investment Fund is one company that manages clients' wine portfolios, buying and selling on the client's behalf. Now in its seventh year, the fund manages some £140m worth of assets.

Andrew della Casa is one of the founding directors of TWIF. "We started off by wanting to find a viable product that would offer double digit annualised returns on an ongoing basis and we kept coming back to wine," he says.

The fund has a very narrow mandate. It only invests in wines from the Bordeaux region of France, a fixed area of land that by law cannot be made bigger or smaller.

With Bordeaux Châteaux producing limited quantities of fine wine from fixed parcels of land and only some 40 Châteaux producing investment grade wine, demand increases due to improving quality and rarity (the quantity of any given wine from any given vintage can only decrease over time as it is consumed).

"The quantity produced on an annual basis will not vary too much. You will not get a doubling effect. It is a perfect universe supply curve. There are perhaps no other assets with this curve," della Casa says. The fund also only considers 160 lines of stock. "We only look at good years – decided by the market, not us," he says.

Traditional demand from Europe and North America has been consistently high but there is also increasing demand from emerging markets. "Asia middle classes are entering the market. This adds demand so prices can only go up," della Casa says.

Prices were up 16%-19% in 2009 and he expects growth around the long-term average of 12%-15% pa in 2010. He recommends investors have 5%-6% of their liquid portfolio in wine.